



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

RANDAL K. QUARLES
VICE CHAIR FOR SUPERVISION

January 17, 2020

The Honorable Barry Loudermilk
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Thank you for your letter dated November 26, 2019, regarding guidance on financial institutions' use of artificial intelligence (AI) and machine learning (ML). You noted that it is important that guidance on AI/ML be coordinated among the banking regulators to avoid inconsistencies among the federal regulatory agencies and fragmentation within the banking industry.

In general, the Federal Reserve Board (Board) supports innovation in the banking industry, including the use of new technologies like AI/ML, provided that such innovation is consistent with safety and soundness and consumer protection, and I appreciate the concerns raised in your letter.

Board staff have been monitoring the impact of AI/ML on the financial services industry, including its adoption by our supervised institutions. In such efforts related to AI/ML, Board staff have been collaborating with other agencies, as they have been for financial technology issues in general. For example, last month the Board and other regulatory agencies issued a joint statement on the use of alternative data in underwriting, which has relevance to the application of AI/ML.¹ The Board plans to continue such interagency collaboration in a manner that encourages innovations while ensuring that risks posed are appropriately managed.

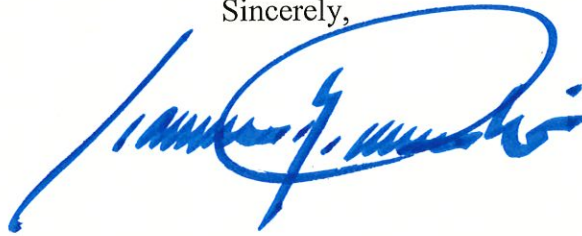
We plan to continue monitoring closely the implementation of AI/ML at our supervised firms. Further, given that the adoption of AI/ML in banking is relatively new, the Board is seeking feedback from a range of external parties to confirm that any possible steps we might take from a policy or supervisory perspective are fully informed ones.

¹ <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191203b.htm>.

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Thank you again for your letter and interest in this important matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "Barry Loudermilk", written in a cursive style. The signature is positioned below the word "Sincerely,".